

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

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| IN THE MATTER OF THE APPLICATION OF |) | |
| GROUSE POINT WATER COMPANY FOR |) | CASE NO. GPW-W-02-1 |
| AUTHORITY TO INCREASE RATES AND TO |) | |
| CHANGE FROM UNMETERED TO METERED |) | ORDER NO. 29402 |
| RATES. |) | |
| |) | |

On December 17, 2002, Grouse Point Water Company (Grouse Point; Company) filed an Application with the Idaho Public Utilities Commission (Commission) requesting authority to increase rates and to change from unmetered to metered rates. Grouse Point operates under Certificate of Public Convenience and Necessity No. 360 and provides water service to 24 residential customers in Ada County, Idaho. Current authorized rates are \$25 per month. The Company has no employees. Operation and maintenance services are performed by United Water Operations, Inc., an unregulated affiliate of the regulated company, United Water Idaho Inc.

In this Order the Commission authorizes a change from unmetered to metered rates. We approve a monthly base charge to customers of \$22 for the first 8,000 gallons plus a commodity charge of \$.50 per 1,000/gallons for all monthly usage exceeding 8,000 gallons. Noting that the Grouse Point water system was designed to provide domestic potable water and not outdoor irrigation water, we direct the Company to read meters and bill customers on a bi-monthly (every two months) rather than monthly basis.

On January 10, 2003, the Commission issued a Notice of Application in Case No. GPW-W-02-01. The Commission Staff conducted a public workshop on January 30th in Kuna, Idaho to discuss the Company's Application with customers. The Company's filing was processed pursuant to Modified Procedure, i.e., by written submission rather than by hearing. Reference Rules of Procedure, IDAPA 31.01.01.201-204. The comment deadline for customers was February 6, 2003. The comment deadline for Commission Staff was February 14, 2003. The Commission in Order No. 29195 issued February 21, 2003, suspended the Company's proposed March 1, 2003 effective date to provide the Company an opportunity to reply to Staff's adjustments and recommendations. An informal stay of proceedings followed to allow the

Company and Grouse Point Homeowners Association to explore and negotiate a sale/transfer of the water system. The Commission Staff has been informed that the parties have been unable to reach agreement. Staff has also been informed that the Company does not wish to reply to Staff Comments and recommendations.

Company Application

On December 17, 2002, Grouse Point Water Company filed an Application for an increase in rates and a change from unmetered to metered rates. Current authorized rates are \$25 per month. The metered rates proposed by the Company are as follows:

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| Base Charge | \$33/mo for first 12,000 gallons |
| Commodity Charge | \$1.70 for each additional 1,000 gallons |

The only source of revenue for Grouse Point is the sale of unmetered water to residential customers. In 2001, reported revenues totaled \$6,625; total reported expenses were \$8,131. The major item the Company is requesting to recover in this case is expenses associated with the meter installations performed in February 2002. The Company anticipates that with the ability to measure individual customer consumption it will be able to collect its increased power costs when irrigation canal water is not available or customers choose to use the potable water outside as a convenience.

Staff Comments and Recommendations

Staff in its Comments recommends that the revenue requirement for Grouse Point Water be set at \$6,702 per year based on Company and Staff recommended changes to the 2001 test year operating expenses. Staff concurs with the Company proposed transition from unmetered to metered rates. Staff recommends that the monthly charge to customers be set at \$22 per month for the first 8,000 gallons plus \$.50 per 1,000 for each additional gallon.

Revenue Requirement/Rate Base

Staff, based on its review and audit and proposed adjustments to the Company's 2001 test year (to normalize expenses and to bring them in line with known and measurable changes), recommends an annual revenue requirement for Grouse Point Water of \$6,702. Staff's revenue requirement includes a 12% return on the cost of meters installed by the Company. A 12% return on equity is commensurate with risk and is in keeping with the return allowed other small water companies. The cost of the meters was \$3,842 (adjusted by Staff to \$3,453). Staff recommends depreciating the meters over 30 years. A 30-year accounting life for meters is

standard. All other capital investment was installed prior to issuance of Commission Certificate and under Commission rules is considered contributed property (IDAPA 31.36.01.103). In other words, the customers have already paid for that investment in the purchase of their property.

Rate Design

Staff concurs with the Company proposed transition from unmetered to metered rates. Metered usage ensures that customers pay for their own water usage. Metered rates promote conservation and allow customers to have more control over individual bills. Metering in this case also permits a rate design that allows the Company to better recover the variable costs of production associated with the use of domestic potable water for outdoor irrigation.

Staff recommends that the monthly charge to customers be set at \$22 per month for the first 8,000 gallons plus \$.50 per 1,000/gallons for all additional usage. The base rate, Staff contends, will recover the fixed costs of the water system and should provide customers with sufficient water for normal domestic uses. The variable rate provides incentive for customers to conserve water and for the Company to make energy saving system improvements (see Power Expense discussion). Staff recommends that the Company read meters and bill customers every two months. The combined fixed/variable rate design proposed by Staff would decrease the monthly charges to the average volume customer. Customers that use more than 14,000 gallons per month will see an increase in rates. Staff's rate design is based on one year's worth of flat rate data. Staff recommends that the Company be directed to file a report showing actual customer usage and system improvements following a year of metered service.

Power Expense

Staff notes that the electricity expenses for Grouse Point appear extremely high on a volumetric basis relative to all other regulated water companies in Idaho. Staff calculates a total electricity cost of \$1 per 1,000 gallons for Grouse Point compared to an average total energy cost of \$0.08 to \$0.41 per 1,000 gallons for other regulated water companies based on available 2001 annual reports. The rate design proposed by Staff encourages the Company and customers to take actions that improve the performance of the system. The Grouse Point water system was designed to be a potable water system for domestic use only. It was not designed to provide water for outside irrigation. For outdoor use, customers of Grouse Point have a separate pressurized irrigation system that uses canal waters. Staff contends that customers should be

discouraged from using potable water for irrigation and that the Company should be encouraged to make system improvements to reduce the high cost of operation.

While Staff is unable to determine the exact cause of the excessive electricity usage, Staff believes that it could be due to several factors. The system is designed to operate primarily off a small pump with a large backup fire pump for emergency operation. If the equipment settings are not optimized, the larger pump may be running more frequently than necessary and add excessively high costs. If customers are using more water than the little pump can provide, such as significant amounts of domestic water for irrigation, the large pump will be required to run. The large pump, because of its size, would operate inefficiently and provide water at a very high power cost. The system may also have inadequate storage requiring the pumps to run too long or to cycle too frequently. Either situation could add additional cost. Staff believes that power costs of \$1.00/1,000 gallons are unreasonable and should be reduced for ratemaking purposes to \$0.50/1,000 gallons. To this end, Staff in its calculation of revenue requirement reduced the Company's normalized annual power expense by 50% or \$1,464.

Customer Comments

Customer comments are summarized in Staff's filing. Written comments, in general, mirror customer comments at the workshop. Comments tend to fall into one of four broad categories: rates, meters, health and safety, and disagreements with the developer. One customer, representing the Grouse Point Homeowners' Association, requested that a formal hearing be held in this case. Most customers object to the Company's proposed increase. Several customers believe that the proposed increase violates a developer promise of plenty of water at a reasonable rate.

COMMISSION FINDINGS

The Commission has reviewed and considered the filings of record in Case No. GPW-W-02-1 including the comments of Grouse Point customers and the comments and recommendations of Commission Staff. Although a representative of the Grouse Point Homeowners Association requested a hearing, we find that customers have not identified issues that the comments do not adequately address. We continue to find it reasonable to process this case pursuant to Modified Procedure, i.e., without hearing and based on the written filings of record. IDAPA 31.01.01.204. We are satisfied that Grouse Point customers have been provided

with adequate opportunity to have their questions answered regarding the Company's Application and to submit comments for Commission consideration.

Addressing the health and safety concerns of customers we note that Grouse Point customers are served by two water systems, a regulated domestic potable water system and an unregulated pressurized irrigation system. The two systems were constructed as stand alone separate systems. Cross connection of the two systems by customers presents a vector for backflow and contamination of the drinking supply. All customers are at risk should contamination occur. Customers should educate themselves in safe operating practices and have their cross connection and backflow prevention devices tested annually. Grouse Point Water, as a community drinking water system, is required by the Idaho Department of Environmental Quality to have a cross connection control program. Reference IDAPA 58.01.08.550.07.

Customer problems with the pressurized irrigation system, while perhaps impacting the regulated system, are nevertheless outside this Commission's jurisdiction. Reference Title 61, Idaho Code. So too are developer promises to customers made at the time of the sale/purchase of the lot or new home. We cannot enforce those promises. Our statutory duty to customers is to ensure that the Company maintains adequate service (*Idaho Code* § 61-302); and that the rates for water and service are just and reasonable (*Idaho Code* § 61-301). Our statutory duty to the utility is to ensure that the rates we establish provide the Company a reasonable opportunity to recover its costs of production and service. Customers who are having difficulty in paying their water bills are encouraged to contact the Company to discuss payment arrangements.

Based on our review of the record established in this case, the Commission finds it reasonable to approve the Company requested change from unmetered to metered rates. The Grouse Point potable water system, we find, was not designed to provide water for outdoor irrigation. For outdoor use, Grouse Point customers have access to a separate pressurized irrigation system that uses canal water. Potable water is a valuable commodity that must be used wisely. A flat rate for water provides no economic incentive to conserve. On the facts presented, we find that the use of domestic potable water by Grouse Point customers for outdoor irrigation is not an intended, nor is it an economic use of the water. The metering we authorize will provide customers with an economic incentive to use the Company's potable water only for

its intended domestic purpose. A billing rate based on metered water fairly charges customers for their usage and may also encourage conservation.

We approve in this Order an annual revenue requirement for Grouse Point of \$6,702. The revenue requirement calculation is based on an approved 2001 test year and incorporates Staff's operating and rate base adjustments, which we find reasonable. Reference Staff Comments, Attachment 1. We note that Grouse Point has no employees, but utilizes only contract labor. The authorized revenue requirement we approve includes labor expense for operation and management services, and the cost of water testing, accounting and meter reading. The rate base we approve for the Company in revenue calculations, i.e., \$3,453, is comprised solely of its investment in customer meters. On this investment, which has a depreciable accounting life of 30 years, we authorize a 12% return on equity, a return that we find recognizes the increased risk associated with operating a small water company with a small customer base.

In authorizing the change from unmetered to metered rates, we approve a Staff recommended monthly fixed charge to customers of \$22 for the first 8,000 gallons plus a commodity charge of \$.50 per 1,000 gallons for all monthly usage exceeding 8,000 gallons. The fixed rate we approve will enable the Company to recover its fixed operating costs and should provide customers with sufficient water for normal domestic uses. Average volume customers will realize a decrease in their monthly charges; customers using more than 14,000 gallons per month will see an increase.

Recognizing that Grouse Point provides potable water for domestic use and not for outdoor irrigation, the Commission finds it reasonable to require the Company to read meters and bill customers on a bi-monthly (every two months) rather than monthly basis. We have accepted Staff's power expense adjustment in this case because we believe that the Company's power costs are unreasonably and unacceptably high.

The rates we approve are based on available information and one year's worth of flat rate data. Recognizing that time has passed since the data was collected and that some adjustment to rate design might be necessary, we direct the Company to file a report with the Commission at the end of calendar year 2004 showing actual customer usage by billing period and detailing any completed system improvements. The Company should also recommend rate design changes, if any, that it would like considered.

CONCLUSIONS OF LAW

The Commission has jurisdiction and authority over Grouse Point Water Company, a water utility, and the issues raised in Case No. GPW-W-02-1 pursuant to Title 61 of the Idaho Code and the Commission's Rules of Procedure, IDAPA 31.01.01.000 *et seq.*

ORDER

In consideration of the foregoing and as more particularly described above, IT IS HEREBY ORDERED and the Commission in Case No. GPW-W-02-1 does hereby approve as just and reasonable, a test year of 2001, and an annual revenue requirement of \$6,702, the calculation of which includes a 12% return on equity on an authorized rate base of \$3,453.

IT IS FURTHER ORDERED and the Commission does hereby approve a change from unmetered to metered rates. We approve and authorize a monthly fixed charge to customers of \$22 for the first 8,000 gallons plus a commodity charge of \$.50 per 1,000 gallons for all monthly usage exceeding the monthly allowance.

IT IS FURTHER ORDERED and the Company is directed in compliance with the foregoing to file amended tariffs to reflect the authorized rates on or prior to the effective date that we hereby authorize, i.e., January 1, 2004.

IT IS FURTHER ORDERED and the Company is directed to read customer meters and to bill customers on a bi-monthly basis.


IT IS FURTHER ORDERED and the Company is directed to file a report with the Commission at the conclusion of calendar year 2004 showing actual customer usage by billing period and detailing any completed system improvements.

THIS IS A FINAL ORDER. Any person interested in this Order (or in issues finally decided by this Order) may petition for reconsideration within twenty-one (21) days of the service date of this Order with regard to any matter decided in this Order. Within seven (7) days after any person has petitioned for reconsideration, any other person may cross-petition for reconsideration. See *Idaho Code* § 61-626.

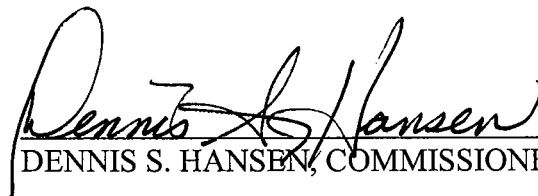
DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 19th
day of December 2003.



PAUL KJELLANDER, PRESIDENT

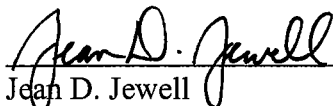


MARSHA H. SMITH, COMMISSIONER



DENNIS S. HANSEN, COMMISSIONER

ATTEST:



Jean D. Jewell
Commission Secretary

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